MEMORANDUM

April 7, 2008

TO:

County Council

FROM:

Michael J. Knapp, Council President

SUBJECT:

Worksession—initial reconciliation of the FY09-14 Capital Improvements

Program

Based on Council actions to date the Draft FY09-14 CIP assumes about \$363 million more of G.O. bond funded expenditures than is available under the Spending Affordability guidelines and targets. It also assumes about \$69 million more of Current Revenue spending than is available according to the Executive's Public Services Program; although much of this spending is in FYs 11-14 (years in which the Council has not necessarily agreed with the Executive's Current Revenue spending assumptions), about \$5 million is in FY09—spending that is in direct competition with the FY09 Operating Budget.

The Council must bring its programmed spending within the approved spending levels and yet maintain an adequate reserve. Spending much higher than this level and depleting the reserve may not leave enough funds for: (1) projects currently in facility planning or design that will be ready for construction in the next year or two; (2) the inevitable cost increases encountered by existing projects; and (3) unanticipated but desirable programming opportunities. Spending significantly higher than the guidelines and targets may endanger the County's AAA bond rating, since spending at the level of the current guidelines and targets brings debt service already to the brink of 10% of operating revenue (a standard that is recognized and used widely).

Normally CIP Reconciliation occurs in early May and involves small shifts in several projects in order to deal with small aggregate overages (less than \$50 million over the 6-year period) and unevenness in spending across the six years. Typically the May reconciliation does not result in major changes to the Council's funding priorities. But a \$363 million overage is anything but small: reconciling this spending to available revenue means deleting and delaying funding for many high-profile projects. That said, the Council should initially reconcile the CIP now, so that the public is not led on for several months thinking that certain projects are 'safe,' only to see the rug cut out under them at the last minute—and largely in private. A final reconciliation will still occur in May, but it should be of a technical nature dealing with small changes.

The charts on the two-page attachment (©1-2) display how funds would be modified or reallocated, by project, in order to stay within the G.O. Bond guidelines and targets (or, in the case of Current Revenue, to reduce most of the FY09 problem). The key points of the reconciliation are as follows:

MCPS

- Delay the start of the four high school modernizations by one year and the Wheaton HS modernization by two years.
- Delay three elementary school gym projects by two years. The gym projects add no capacity, and are the among the lowest priority projects in the MCPS CIP.
- Approve only half the proposed funding increases for several 'level of effort' projects.
- Remove the proposed funding for the middle school reform initiative from the <u>Technology Modernization</u> project.

Public Safety

- Retain full funding of the <u>Judicial Center Annex</u> (i.e., retain the \$100 million added for construction) but spread the construction period over four years instead of three, with completion in FY15 instead of FY 14.
- Fund only the design of five fire station projects, two police station projects, and the <u>PRC Kitchen</u> and <u>Outdoor Firearms Training</u> projects. This follows the principle that building projects not yet in design should be funded only for design until enough is known about the scope, community and environmental impacts, and cost of the project to proceed to construction funding.
- Assume \$2 million of the cost of the <u>Animal Shelter</u> in FY10 will be covered by private contributions.

Libraries and Recreation Centers

- Fund only the design for the North Bethesda and North Potomac centers, and the four neighborhood centers. The scope and cost of these centers are unknown. By providing the design funding on the current schedules all of these projects can proceed, and with more sizable reserve across the six-year period—and especially in the first few years—there is better opportunity that the Council will be able to find funding for projects when they are ready for construction (see discussion of the reserve, below). Create a new project, Neighborhood Recreation Center Construction, as a placeholder of \$17 million for the construction of the four neighborhood recreation centers.
- Reduce funding for the <u>Recreation Modernization</u> project, since much of its scope will be superseded by funding in the stand-alone recreation projects.
- Generally fund only the design of several library projects for the reasons noted above.
 Exceptions are: the <u>Gaithersburg Library Renovation</u>, which would be fully funded, and the <u>Silver Spring Library</u>, which would be funded as recommended by the Executive.

General Government

• Approve only half the proposed funding increases for several 'level of effort' projects.

M-NCPPC (Parks)

- Delay the Laytonia Recreation Park by one year.
- Delay \$3 million (\$500,000 annually) in Legacy Open Space until after FY14.
- Approve only half the proposed funding increase for <u>Minor New Construction-Non Local</u> <u>Parks</u>.

Transportation

- Retain full funding for Montrose Parkway East, but extend its period for land acquisition over an additional year and start construction 2 years later, completing it in FY16 instead of FY14. In this way it is more likely that the State will program and build the 'missing link' between Parklawn Drive and Rockville Pike in sync with Montrose Parkway East.
- Retain full funding of the <u>Falls Road East Side Hiker-Biker Path</u>, but delay the start of design by 2 years, to FY11. It is a new project, but a lower priority than some others. The project would be completed in FY16, not FY14.
- Delete design funding (and the stand-alone PDF) for <u>Goshen Road South</u>. The project is still in facility planning; following the recommendations of the OLO report, such a project should not be programmed yet. It can be taken up as a CIP amendment once facility planning is complete.
- Delete the <u>Ride On Fleet Expansion</u> project. This project was recommended by Council staff when it believed a much larger amount of unprogrammed transportation impact tax revenue would be available; now that the estimate has been reduced, this project should be eliminated. The County should prepare to buy additional buses in future operating budgets (starting in FY11) as it nearly always has.
- Fund \$3.5 million of the <u>Sidewalk & Infrastructure Revitalization</u> project in FY08 with fund in the G.O. bond reserve rather than in FY09 with Current Revenue.

Capital Reserve

This reconciliation proposal accepts the approach that would fund only design until enough is known about a project's scope, community and environmental impact, and cost to determine how—or even whether—to proceed to construction. However, the proposal contains a couple of notable aspects:

- Several large projects that are or shortly will be in design—<u>Judicial Center Annex</u>, <u>Bethesda Metro South Entrance</u>, <u>Montrose Parkway East</u>, and a host of MCPS projects—would be programmed with full construction funding. Therefore, these projects should not draw on the capital reserve, unless there are cost overruns.
- The capital reserve itself would be significantly larger than earlier planned: instead of about \$279 million, it would be about \$351 million (including the \$17 million programmed reserve for the neighborhood recreation centers). Furthermore, much more of this reserve would be available in the first four years (FYs09-12): \$144 million, more than 50% higher than the \$94 million planned in the February SAG review.

This means that although many library, recreation, fire station, and police station projects would be funded for design only now, there is a much greater opportunity for funds to be available once the Council knows their respective scopes, impacts, and costs, and decides to proceed with them.

Current Revenue

This reconciliation proposal nearly eliminates the 'FY09 problem' in Current Revenue, although it leaves a large amount of additional funding in FYs11-14. Recall, however, that the Executive recommended reducing funds available for Current Revenue spending by about \$100 million between the Approved CIP and his Recommended CIP. The Council has been less willing to expect that this large a change is necessary in FYs11-14. Even with the \$57 million higher spending in FYs11-14, the post-reconciliation spending implicitly assumes about \$43 million less in Current Revenue spending in those years than had been implied in the Approved CIP.

| FY 09 FY 10 FY 11 FY 12 FY 13 FY 1454 T1454 T145 | 72 FY | FY 09-14 Comments |
|--|----------------|--|
| 1 2,207 71,454 124,857 116,164 71,980 11,000 1 2,236 -1,850 -2,936 -2,936 -3,960 1 2,236 -1,850 -1,130 -2,366 -3,960 2 2 2 2 2 2 2 2 2 | 8 | |
| Path -50 -1,850, -2,350 -1,850, -2,355 -3,950 -1,130 -2,350 -1,130 -2,350 -1,130 -2,300 -4,000 -4,000 -2,000 -4,000 -4,000 -4,000 -1,130 -2,594 -11,116 -6,020 -1,130 -2,200 -1,25 -1,25 -1,25 -2,200 -1,25 -1,25 -2,200 -2 | | 362,876 Assumes new Rec. Tax est. |
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| Path -50 -1,130 -2,930 -2,366 -3,960 -3,000 -4,000 -2,000 | | -4,200 Delete (finish Fac. Planning first) |
| na | | -9,030 Delay 2 yrs, reassign imp tax |
| -1,633 -23,645 -29,647 1,116 -6,020 -1,633 -23,645 -29,647 1,035 -175 -275 -2,200 -150 -125 -220 -275 -2,200 -2,200 -275 -280 -280 -280 -280 -280 -2,000 -2,600 -1,500 -200 -2,000 -33,969 -7,829 -25,011 9,910 -2,109 -703 -40,102 -4,351 30,115 -2,109 -703 -2,041 9,910 -2,109 -703 -2,058 -4,351 30,115 -2,109 -2,000 -500 -500 -500 -500 -500 -500 -500 -500 -500 -500 -500 -500 -500 -2,000 -3,332 -3,380 -500 -2,924 -9,150 -2,137 -5,433 t -2,924 -9,150 -2,137 -2,216 -2,109 -7,322 -2,137 -2,216 -2,000 -3,332 -3,380 -2,137 -2,13 | | -14,000 Delete; reassign imp. tax |
| 1,633 | | -21,831 Delay con 2 yrs, reassign imp tax |
| 1.125 | -53,890 | -53,890 Delete construction funds |
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| Chevy Chase ES Gym -275 -2.200 2.75 Clock ES Gym -275 -2.200 2.75 pring ES Gym -275 -2.200 2.75 pring ES Gym -275 -2.200 2.75 replacement -280 -280 -280 -280 replacement -200 -2.00 -2.00 -2.00 -2.00 -2.00 red (Safe) Access to Schools -200 -2.00 | | |
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| by HS -2,216 -738 -738 -738 -738 -738 -730 -732 | | -64,027 from 8/14 to 8/16 |
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| Park | -7,351 -7,351 | -7,351 from 8/18 to 8/19 |
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| Company | | |
| 1.00 | -2,00 | -2,000 Assume \$2M contributions |
| #18 Replacement | -6,71 | -6,712 Design funds only |
| #18 Replacement | -14,21 | -14,211 Design funds only - no site |
| -10,011 -5,433 -7,013 -4,347 -2,216: -5,000 -15,000 | -10,25 | -10,256 Design funds only |
| -7,013 -4,347 -2,216: -5,000 -15,000 | -15,44 | -15,444 Design funds only |
| -2,216: -5,000 -15,000 -491 -770 | 1 | -11,360 Design funds only |
| -5,000 -15,000 -491 -770 | | -3,216 Design funds only |
| -491 | -5,000 -25,000 | -25,000 Stretch out to FY15 |
| | -1,26 | -1,261 REOI to be issued |
| | | -378 Design funds only |
| | 572 -1,03 | -1,035 Delay 2 years |
| Outdoor Firearms Training -429 | -42 | -429 Design funds only |

| Davis Library Potomac Library | | | - | | • | | | |
|---|-------------|----------------------|-----------------------------|-------------------------|-------------|--------------------|------------------------|--|
| otomac Library | | | | 004 | -007 | C | 10/- | Design funds only |
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| | 4 925 | -3.824 | -20,000 | 1-6 | | | -18,899 5 | -18,899 Same as Exec rec |
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| Notific Bearings and Conter | | 177 | -14.054 | -19,667 | | | -33,721 L | -33,721 Design funds only |
| Iorin Poloniac Nec Center | | | -4 963 | -3.020 | | | 1 886' 2- | -7,983 Design funds only |
| Plum Gar Rec Centel | | | | -2 660 | -1.993 | - | -4,653 L | -4,653 Design funds only |
| Good Hope Rec Cerrel | | | | -6.528 | -3,616 | | -10,144 E | -10,144 Design funds only |
| Ross Boddy Rec Celliel | | | -2 328 | -1 551 | | | -3,879 | -3,879 Design funds only |
| Scotiand Rec Center | | | 5.000 | 000.6 | 3,000 | | 17,000 F | 17,000 Reserved for neighb rec centers |
| Neighb. Rec Cerrer Construction | | | -200; | -200 | -200 | -200 | -800 F | -800 Reduce |
| Kec Wodelfilzation | 10 287 | 15 516 | -24 943 | 15.185 | 9.845 | -28,653 | -54,469 | |
| Bring cells to 0 or lower | 14 430 | -15 793 | -26.758 | -37.497 | -100,227 | -84,575 | -279,280 1 | 13.25% in reserve |
| Starting reserve (Feb.3) | -24,817 | -31,309 | -51,701 | -22,312 | -90,382 | -113,228 | -333,749 1 | 15.83% in reserve |
| | | | | | | | | |
| | | CIP Reconci | | ent Revenu | (\$000) er | | 77 00 71 | |
| | FY 09 | FY 10 | FY 11 | FY 12 | FY 13 | FY 14 | FY 09-14 | ŀ |
| Council, thru April 1 | 5,015 | 789 | 5,981 | 8,152 | 24,321 | 24,313 | 68,571 / | Assumes new Rec. 1ax est. |
| | | | | | | | | |
| Sidewalk & Infra Revitalization | -3.548 | - | | | | | -3,548 | -3,548 Do in FY08 w/bonds instead |
| Dirhic Schools | 25 | | | | | | | |
| Technology Modernization | 869- | -1,337 | -1,004 | -1,702 | -1,570 | -1,778 | 1680'8- | -8,089 remove MS reform initiative in |
| Bring cells to 0 or lower | 692 | -548 | 4,977 | 6,450 | 22,751 | 22,535 | 56,934 | |
| | | | | | | | 777 | 100047 015 |
| Comparison of FY07-12 Approved (as Amended) CIP | ed (as Amei | | vs. Recommended FY09-14 CIP | nded FY09 | -14 CIP vs. | Reconciled FY09-14 | 1 FY09-14 (| CIP (\$000) |
| | | Postore | Docommo | Docommonded FV09-14 CIP | -14 CIP | Recon | Reconciled FY09-14 CIP | -14 CIP |
| Agency/Program Area | - | Approved | Necolline Percolline |) ebaca | 10 | Recon CIP | Change | % Change |
| | | ביין היין היין | 1 422 072 | 1~ | _ | 1 378 882 | 167,163 | 13.80% |
| Public Schools | | 267 635 | 326,012 | -36 228 | -10 00% | 259.804 | -102,831 | -28.36% |
| Montgomery College | | 183.266 | 192 877 | 9,611 | 5.20% | 196,198 | 12,932 | 7.06% |
| M-NCPFC | | 27 146 | 26 741 | -405 | -1.50% | 26,841 | -305 | -1.12% |
| Revenue Aumonity | | 15617 | 14 479 | -1,138 | -7.30% | 14,579 | -1,038 | -6.65% |
| Participal Control (Solid Master | | 78 398 | 60,745 | -17,653 | -22.50% | 60,745 | -17,653 | -22.50% |
| Natural Resources/Solid Waste | | 211 715 | 188,026 | -23,689 | -11.20% | 197,079 | -14,636 | |
| General Governmenting | | 131 314 | 114 171 | -17,143 | -13.10% | 106,041 | -25,273 | -1 |
| Libraries & Necleanor | | 229 687 | 171,612 | -58.075 | -25.30% | 232,966 | 3,279 | |
| Public Salety | | 738 095 | 708,617 | -29,478 | -4.00% | 687,137 | -50,958 | %06 ^{.9} - |
| Tallsportation | | 3,189,592 | 3,225,747 | 36,155 | 1.13% | 3,160,272 | -29,320 | -0.92% |
| l Otal | | | | | | | | |
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